



Official Minutes from the November 5, 2018 MCC Advisory Council Meeting

Millennium Challenge Corporation
Franklin Court, Suite 700, Rooms A and B
1099 14th Street, NW, Washington DC
November 5, 2018
9:00 am – 2:00 pm

Agenda

8:30 am - 9:00 am	Coffee and pastries
9:00 am	Call to Order and Welcome - Introduction of Members Jonathan Richart, Deputy Vice President, Infrastructure, Environment and Private Sector Tim Docking & Mima Nedelcovych Chairs Emeritus, MCC Advisory Council
9:30 am	Conversation with MCC Leadership - MCC Update & Advisory Council Expectations Kyeh Kim, Acting Vice President, Department of Compact Operations
10:30 am	Break
10:45 am	The MCC Selection Process: An Overview Dan Barnes, Managing Director, Selection and Eligibility
11:45 am	MCC Advisory Council: Administrative Housekeeping - Bylaws; Chairperson; Subcommittees Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade

12:00 pm	Networking Lunch
12:30 pm	<p>The Changing Landscape of Development Finance</p> <p>Introductory Comments James Mazzaella, Acting Senior Director for Global Economics and Development, National Security Council</p> <p>Guest Speaker David Bohigian, Executive Vice President, Overseas Private Investment Corporation (OPIC)</p>
1:30 pm	Sri Lanka: An Update
1:45 pm	<p>Concluding Remarks Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade</p>
1:55 pm	Opportunity for Public Comment
2:00 pm	Meeting Adjourns

Call to Order and Welcome – Introduction of Members

Jonathan Richart, MCC’s Deputy Vice President (DVP) for Infrastructure, Environment, and Private Sector, opened the meeting with a greeting to the 2018-2020 MCC Advisory Council members who were in attendance. He provided the members with a history of the Council’s work, which included its genesis 2.5 years ago as an experiment to garner insight and innovation into MCC investments and its operations.

Returning member **Tim Docking** introduced himself as one of two Co-Chairs Emeriti, along with **Mima Nedelcovych**, who joined the meeting via phone. He walked through the agenda and passed the floor to Kyeh Kim, MCC’s Acting Vice President (AVP) for the Department of Compact Operations.

Conversation with MCC Leadership – MCC Update & Advisory Council Expectations

MCC Acting Vice President (AVP) for Compact Operations, Kyeh Kim, started the session by noting that she hoped to have an open dialogue with the Council, rather than sticking to any prepared remarks, given feedback from Council members. She echoed DVP Richart’s praise of the Council’s work during its first term and reiterated her excitement about the second term. Given the recent passage of the AGOA and

MCC Modernization Act, AVP Kim shared that the legislation and authority for MCC concurrent regional compacts enables MCC to develop regional investments that delve into cross-border infrastructure (energy/transport). She noted that MCC will most likely initially focus on West Africa and build upon relationships with current partners. AVP Kim introduced Tom Kelly, MCC's Acting Vice President for the Department of Policy and Evaluation to comment on this work, as well.

AVP Kelly shared that regional compacts will most likely focus on West Africa because of the multitude of current partners in the region. Kyeh Kim agreed and added that MCC is interested in building upon existing partners and partnerships with other stakeholders in the region to create concurrent regional compacts.

Craig Steffenson suggested that MCC might want to tackle regional policy issues by latching onto an existing regional organization, rather than developing a new entity.

Nilmini Rubin stated that it is critical that MCC demonstrates that they can do concurrent compacts for what is stated in the bill (i.e. regional economic integration, cross-border trade, etc.) and then maybe consider other countries.

Guevara Yao confirmed that there are projects in the pipeline waiting for this type of support, and that West Africa is a great place to start because it is a leading Regional Economic Community (REC) on the continent in terms of regional integration and cross-border cooperation.

AVP Kim discussed concurrent regional compacts as another product line, and a unique opportunity for countries to tap into MCC financing – that it is not an either/or scenario. She noted that there is early indication that bilateral compact partners are interested in pursuing regional investments.

Daniel Runde posed questions on potential subnational investments and whether MCC can be the U.S. government's answer to urbanization. **Alex Sarac** offered that one strategy could be for MCC to approach local implementers in cities and regions first, and then encouraging those local players to lobby their own governments for buy-in, understanding the politics within countries can be challenging.

Olga Petryniak, attending the Council meeting in Neal Keny-Guyer's stead, questioned how projects are selected versus countries and noted she would be interested in hearing more about this at future meetings. She asked how a return on investment and do no harm socioeconomic analysis might fit into project analysis once countries have been selected.

AVP Kim assured **Olga Petryniak** that MCC adheres to the spirit of its authority, and ensured her that the agency stays true to its core principles and commitment to high quality projects. She said that the high standard of environmental and social protection along with gender inclusion are important factors alongside economic growth. In project scans, MCC looks for those that fit the basic criteria before honing in on projects.

Naabia Ofosu-Amaah said that it would be helpful to see MCC's overall vision for the next 5-10 years and

what percentage of portfolio will be regional. She emphasized that these answers will help test the first iteration of concurrent regional compacts.

AVP Kim responded by saying that MCC is a learning organization that is transparent about its successes and failures, and hopes to learn what works and does not work. The hope is for regional to be an important part of MCC's portfolio, but that it is unlikely at this stage to be a dominant part of the portfolio. MCC understands that there is a strong desire among its partners to remain focused on bilateral compacts, and to then explore opportunities to work regionally.

Lawrence Jones added that one of the major concerns with regional projects in Africa and Asia is maintenance once the agency leaves. He asked how the business model fits will take into consideration the long-term sustainability of projects.

AVP Kim shared that MCC grapples with issues on sustainability, and the challenges of having a statute that limits compacts to five-year terms. She said that MCC cannot continue implementation after five years, and that it is important to ensure feedback loops and accountability measures into program, policy, and institutional reforms. While concurrent regional compacts might be more complicated, working with the private sector can help ensure there is sustainability of the projects beyond the life of the compact.

Aaron Bielenberg shared that subnational entities and cities can help bring in private capital because of their large and robust tax base and revenue streams, which increase their attractiveness for private sector investment. He cautions however that the missing link for some projects is a creditworthy partner or guaranteed revenue streams.

AVP Kim introduced Alex Dixon, MCC's Practice Lead and Senior Director for Finance, Investment, and Trade and asked that he provide comments on the role of the private sector in our investments and an update on MCC's role in blended finance.

PLSD Dixon said that blended finance is not new to MCC, although the term is. MCC has a long history in blended finance transactions, and the agency is positioned as a builder, catalyst, and dealmaker. MCC can build the baseline (i.e. social impact, monitoring and evaluation, etc.). Alex Dixon offered that MCC is also able to fund many of the soft areas that can stop deals. MCC can turn around a sector for a country, and is a concentrated force in the industry.

DVP Richart agreed with Alex Dixon that while blended finance is not new to MCC, the agency is being more targeted and deliberate in leveraging this model. He said that the MCC Advisory Council is one way for MCC to raise awareness of its work, and that the new development finance corporation (DFC) will be a fantastic opportunity to look at ways in which MCC can collaborate with this enhanced OPIC.

Aaron Bielenberg emphasized the need for MCC to help communicate its impact and set targets for capital catalyzed and really tracking it. He said he has seen MCC turn around entire sectors (i.e. Liberia), and the hundreds of millions of dollars that came in as a result. **Aaron Bielenberg** would like to see MCC set a model for what it means to catalyze capital and how the agency can track and achieve it.

Patricia Sheikh mentioned private sector criticism that it is difficult for them to win contracts funded by MCC. She encouraged MCC to have as many sessions as possible with the private sector to educate them and publish who wins contracts. She hopes MCC can help eliminate barriers the US private sector faces in winning these contracts.

Alex Sarac shared the value of case studies on blended finance, and requested a brief paper summarizing how MCC defines blended finance and its involvement in these transactions. He said that it is important to document what is being done, and to demonstrate the methodology used to define instruments. He also suggested MCC opine during the OECD's open comment period.

PLSD Dixon responded that MCC has coordinated with the OECD on these principles and lined them up to see how they align with MCC principles. He agreed they are useful as a framework and that they have set a global framework, helping MCC with its thinking. The IFC recently discussed their new 3.0 model with MCC, in which they are moving the organization closer to MCC's model of identifying binding constraints to growth, and that a similar convergence is happening in the broader development finance community.

DVP Richart added that OECD is a convener in many aspects and that it serves as a catalyst to harmonize.

The MCC Selection Process: An Overview

[Selection 101 Presentation](#)

Dan Barnes, MCC's Managing Director for Selection and Eligibility, presented on the MCC selection process. He shared valuable insight about the process MCC and its Board use to determine partner countries and noted that the threshold program enables MCC to work with countries that don't yet pass the MCC scorecard, in part, in order to determine how well partners collaborate and work toward reforms. MD Barnes emphasized that the performance of countries with a compact is measured against its own baseline. Before countries are selected eligible, they must pass the MCC scorecard, competing against other countries within their pool – either low income or lower middle income countries.

Olga Petryniak asked about donor coordination on this process.

MD Barnes responded by saying this question is important and that the MCC Board is aware of which donors and other organizations are active in the country and their priorities. During implementation, on-going donor coordination is vital to project success.

Naabia Ofosu-Amaah asked how countries are engaged in the process.

MD Barnes asserted that MCC has formal communication strategies in place with embassies, Ambassadors, etc. and that decisions are not made in a vacuum. He noted that many countries will proactively engage MCC and express interest, while others do not. For the latter, MCC leverages its

relationships with State Department colleagues to determine indications of country interest.

AVP Kim asked MD Barnes to speak to the MCC effect – and the impact that potential MCC funding can have within a potential partner country.

MD Barnes pointed to Cote d'Ivoire having proactively approached MCC and the independent entities that produce the data that MCC uses to populate its scorecards when it was only passing four of the 20 indicators. The country was able to improve its scorecard and was later selected for a threshold program and ultimately for a compact. In addition to this success story, there have been major reforms in Togo, and improving data collection in Kosovo, without any use of U.S. taxpayer dollars for these reform efforts.

Lawrence Jones asked if the same process is used for reselection and if there is a move to harmonize one scorecard so governments do not spend a lot of money on developing these. For example, how do we know which scorecard to trust? How can investors trust scorecards?

MD Barnes responded by stating that ultimately different scorecards measure and incentivize different priorities. MCC was designed by Congress to only work with good governing economies with broader democratic rights, whereas other donors might focus on different elements of aid effectiveness. However, scorecards are relatively complementary, and while USAID developed roadmaps consistent with MCC scorecards looking at commitment and capacity, MCC looks at commitment. USAID is also trying to look at whether countries are becoming more self-reliant and which countries are less needy, and whether we should we revisit how aid is given. The principle of reselection remains the same with the addition of concurrent regional compacts, and the conditions for suspension/termination are also largely the same.

MCC Advisory Council: Administrative Housekeeping – Bylaws; Chairperson; Subcommittees

[Bylaws](#)

PLSD Dixon took the floor to discuss several administrative housekeeping topics listed below.

- He reminded the council that they will receive communication after the meeting to lock in dates for the spring 2019 meeting. He mentioned that it is also an opportunity to provide feedback on meeting content, value and suggested improvements.
- With regards to the Council chairs, he shared that MCC sits down with the chair(s) to formulate the agenda and vet it with other members. The first term had two co-chairs, and there is a self-nomination process. The post-meeting communication will include an opportunity to provide your nomination and nominations will be accepted until December 7, 2018. Nominees will be reviewed by an internal panel for selection.
- He reminded Council members that the meetings are open to the public and on the record and that minutes will be published on the website.
- PLSD Dixon referenced a letter to the incoming CEO that the inaugural MCC Advisory Council

members drafted and submitted to MCC after voting on the content of the letter.

- He added that the voting procedure is laid out in the bylaws, which the Council received in advance of the meeting.
- He introduced Jennifer Rimbach who will take over as the Designated Federal Officer (DFO) for the MCC Advisory Council and noted that the announcement of new chair(s) will be made January 8, 2019.

Nilmini Rubin asked if anything was different in the bylaws from the previous term.

Current DFO Beth Roberts said that there were no material changes, and that only the dates and DFO sections were updated.

Tim Docking asked if there were any updates to share from the last survey.

PLSD Dixon said the last survey feedback showed interest in subcommittees. As a result MCC is considering the areas of power and blended finance. DFO Roberts reminded members that subcommittees need to report back to the group because they do not have same provisions as the Advisory Council with regards to transparency.

Following a motion and seconding to approve the by-laws, they were adopted via voice vote.

The Changing Landscape of Development Finance Landscape

PLSD Dixon introduced James Mazzearella and David Bohigian to speak on BUILD Act operational issues and implementation plans.

James Mazzearella introduced himself as Senior Director for Global Economics and Development at the National Security Council where he joined as a director on detail from about 18 months ago. He provided a background of the concept for the BUILD Act, as well as commenting about the interagency and legislative efforts that enabled the Act to be passed into law in early October 2018. He then introduced David Bohigian, Executive Vice President for OPIC. Mr. Bohigian started by mentioning that OPIC CEO Ray Washburne wanted to modernize development finance and that the BUILD Act was the perfect opportunity to make this happen. Following its passage, he highlighted the need to develop an implementation plan (due within 120 days of passage) and submit it to Congress. Mr. Bohigian noted that the DFC is a new whole government approach that involves MCC, TDA, State, Commerce, and USAID, among others and that he is now focused on the four Ts (transactions, travel, talking points, and training) that will help make the DFC a success. He shared that there will be several roundtables in the coming months to discuss the DFC and hear from major stakeholders in the process, including foreign policy think tanks, the development community, impact stakeholders, and the business community at large. Mr. Bohigian assured members that the DFC was focused on modernizing and not reform, and that it is a chance to reinvent how the US practices development finance. He also noted several challenges, in no particular order, that OPIC, the interagency and the new DFC will be working through: equity authority,

technical assistance/grants, mandate to work with low-income and lower middle income countries, when and how to stand up a new advisory council, new logo, how to modernize development finance, etc.

Maureen Harrington asked about plans to modernize the tools. She mentioned that small tweaks to for example the Development Credit Authority could make it better. She suggested that the U.S. government must develop tools to move more quickly. If the new OPIC is meant to counter the Chinese influence through investment, it is too bad there is no authority to enable lending to State Owned Entities or to do more government to government lending.

Aaron Bielenberg mentioned the lack of an integrated approach between finance and infrastructure companies, and that more integration with partners is needed to deliver a one-stop approach. The US can now provide an alternative to bad investments.

Tim Docking asked what mechanisms are in place for interagency coordination and coordination to engage private sector initiation/co-creation of solutions, rather than simply validating government ideas.

Mr. Mazzarella spoke to risk, leverage, and interagency coordination. He suggested that perhaps more risk must be taken to ensure the DFC is filling its appropriate role, suggesting that if it is making a significant amount of money, it may actually be crowding out the private sector. Regarding interagency coordination, there are weekly meetings among key interagency stakeholders.

Mr. Bohigian spoke to impact and asked about finding the right number for returns to the U.S. taxpayer. He brought up blended finance as a tool to leverage.

Mr. Mazzarella commented that pure grants is a sort of development from the past.

Nilmini Rubin congratulated the team on the passage of the BUILD Act legislation. She suggested that one of the reasons for success behind Power Africa was the clear vision that brought together different partners, and that MCC could do the same by developing a few strategic initiatives to get behind the new DFC. She said that a long-term vision should be embedded in every transaction.

Lawrence Jones asked how the DFC will be rolled out in terms of branding and communications.

David Bohigian shared that the 120 day implementation plan must get to Congress by February 1, 2019. He predicted a roll out date of the new DFC to be mid-late 2019, and that answers to questions such as staff size and the role of the Chief Development Officer will be defined by the end of the first quarter.

Mini Roy commented that OPIC's social and environmental evaluations are not coordinated with others and encouraged harmonization among the DFIs to ensure better streamlining among potential deal partners.

Mr. Bohigian agreed and said that it would be much easier if efforts were coordinated among major impact organizations.

PLSD Dixon thanked the guest speakers and encouraged Council members to provide their feedback to MCCAdvisoryCouncil@mcc.gov so that it can be shared with OPIC and the interagency as they move forward in their thinking.

Sri Lanka: An Update

PLSD Dixon thanked Council members for their previously shared feedback on the Sri Lanka projects and noted that all MCC Advisory Council written have been sent to the MCC Sri Lanka team for consideration. He invited MCC's Acting Deputy Vice President, Europe, Asia, Pacific, and Latin America, Caroline Nguyen, to provide a brief overview of recent events in Sri Lanka. She noted that given the fluid situation regarding the change in prime ministers in Sri Lanka that MCC is not yet taking judgment or action, but pausing to allow the situation to play out. She noted that we are following the situation closely and that MCC expects all compact countries to uphold the same principles. She noted that the MCC Board will have the opportunity to discuss the situation at the upcoming MCC Board meeting scheduled for December. There weren't any questions from the Council about the situation, but several members noted that they thought MCC was taking the right approach and were glad to see that the agency is sticking to its principles.

Concluding Remarks

PLSD Dixon opened the floor for concluding remarks and questions from the Council.

Patricia Sheikh inquired what happens next and if the MCC Advisory Council would be asked to review the Sri Lanka Compact if it moves forward. PLSD Dixon confirmed that one possibility would be to put it back on the agenda at a future meeting, but that we would make a determination at a later date.

The following suggestions were made for future meeting topics:

- **Olga Petryniak:** How does MCC engage civil society in countries?
- **Guevera Yao:** What are next steps with regional compacts?
- **Daniel Runde:** He would be interested in hearing more about what happens with countries that could be eligible for third compacts.
- **Patricia Sheikh:** How will MCC continue to improve its private sector engagement?
- **Tam Nguyen:** What new tools can the U.S. innovate to really change/transform the environment and become more competitive (compared with China's tools)?
- **Craig Steffenson:** How can we partner with China to combine bankable projects with capital?
- **Lawrence Jones:** How can the U.S. partner with its European allies? How can we use blended finance? What is MCC's strategy on building its brand awareness?
- **Aaron Bielenberg:** How can MCC get involved with smart grids, smart cities, cutting-edge technologies, etc.?
- **Nilmini Rubin:** Perhaps we can look back at the letter to the CEO and refresh it, given the time that has passed and the efforts that have already been undertaken?

Opportunity for Public Comment

There were no public comments at the meeting, but one written comment was submitted in advance. The content of this comment is included below:

“Subject: Fw:ublic commenton federal register per trumps request to reduce spending by 5% – shut down this entire fat cat bureaucracy

trum phas asked agencies to reduce spending by 5% minimum. certainly i see no reason for investment in sri lanka. the facgt is we need investment in america which is going down the tube. itis time to stop takin gour tax dollars out of america to send them to other countries. we have bad roads, bad sewer systes, dirty water, air and soil. its time to invest in america. i think this agency is not doing that and i think that is traitorous to american interests. i think this agency can be shut down. i see nowhere where it is helpignj america or the american people at all. this commetn is for the public record. please receipt. i oppose this proposal.

please receipt. jean publiee”

Meeting Adjourns

Advisory Council Members Present

- Aaron Bielenberg, McKinsey & Company
- Tim Docking, Refugee Investment Network
- Robert Dove, Darby Investment
- Maureen Harrington, Standard Bank
- Lawrence Jones, Edison Electric Institute
- Mima Nedelcovych, AfricaGlobal (by phone)
- Tam Nguyen, Bechtel
- Naabia Ofofu-Amaah, The Nature Conservancy
- Olga Petryniak, Mercy Corps
- Mini Roy, Metis Markets
- Nilmini Rubin, Tetra Tech
- Daniel Runde, Center for Strategic and International Studies (CSIS)
- Alex Sarac, Bryan Cave Leighton Paisner
- Patricia Sheikh, Roots of Peace
- David Spira, Deloitte Consulting
- Kate Steel, Nithio
- Craig Steffensen, Asian Development Bank (former)
- Guevera Yao, US Chamber of Commerce

Guest Speakers

- David Bohigian, Executive Vice President, Overseas Private Investment Corporation (OPIC)
- James Mazzarella, Acting Senior Director for Global Economics and Development, National Security Council

MCC Advisory Council Members Absent with Apologies

- Stephen Groff, Asia Development Bank
- Joe Dougherty, Dalberg Global Development Advisors
- Justin DeAngelis, Denham Capital
- Fred Sisson, Synnove Energy
- Aubrey Hruby, Africa Expert Network, Atlantic Council
- Hector Morales, Macquarie
- Neal Keny-Guyer, Mercy Corps (Olga Petryniak present in his stead)
- Florie Liser, Corporate Council on Africa

Annexes

MCC Advisory Council Written Feedback – Sri Lanka Compact

Stephen Groff, Asian Development Bank

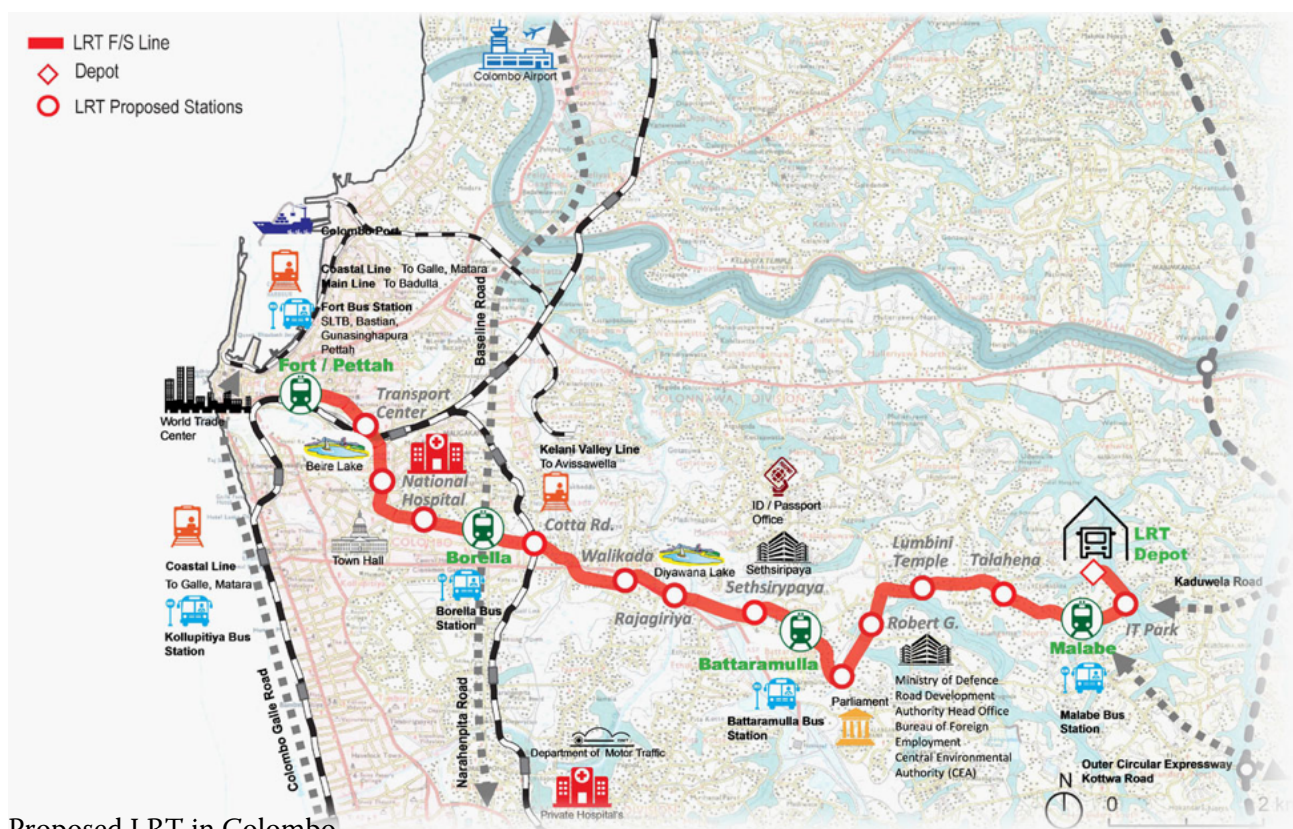
- Slide 4 raises an interesting question. Is “Attractiveness of private transport” a symptom or cause? In South Asia, city after city, we worry about the increasing shift from public to private transport. At the heart of this is chronic underinvestment in public modes.
 - In Colombo, motorbikes grew at about 10%, compounded yearly, from 2012 to 2017, cars at 9%, and buses at only 3% (data [link](#)). The quality and reliability of personal modes have seen major improvements over the years. However, buses remain as they are, and services remain patchy. Train lines also run through the city but are marginally used due to poor service quality and poor reliability. The adverse mode shift is thus a consequence.
 - Another quirk contributes to underinvestment in public modes. Budgets for private modes are costed only for base infrastructure – say a new road – and usage costs (gasoline, vehicle maintenance) are borne by the users. Public modes, on the other hand, are costed at full cost, and therefore appear more expensive and onerous in government budgets.
- Following from the above, the briefing memorandum highlights 3 initiatives: (i) An Advanced Traffic Management System Activity; (ii) A Bus Transport Service Modernization Activity; and (iii) A Central Ring Road Network Activity. The elements for bus transport modernization in the briefing memorandum (four bullets on page 4) are only in the nature of ‘study and advice’ interventions.
 - There is a non-trivial risk that merely improving traffic management under (i) and road space under (iii) will only push more users to private modes and not facilitate a shift to public transport modes.
- MCC seeks the Advisory Council’s feedback on various points, including ‘*Behavior change*.’ Unless

public modes are viable (in terms of comfort, frequency, and safety), this is not likely to happen simply through better road space. Buses account for about 50% of trips but see little investment. My suggestion is therefore to focus on actual investments in bus systems. To clarify, this is not necessarily a reference to BRT, but to better bus services and bus facilities,

- An example illustrating that better services can lead to behavioral change can be found in Bengaluru, India, where the state invested quite heavily in a system of urban buses (low floor, rapid acceleration/ braking, comfort, aircon – Volvo being the selected supplier). These have led to an increased usage from the IT services and financial-services crowd, and are quite successful in altering behavior and the negative cultural stereotypes of a bus passengers. People are quite willing to pay more for better services. Interestingly, private sector operators started following the “better bus” model for inter-city use, after the government investments.
- There are both public investment models as well as limited forms of PPP (‘mileage’ models), with less public-sector investment. Structuring a possible PPP transaction for bus investments (and ATMS) may be a good way to leverage MCC grant resources.

On other points, I note that Advisory Council’s guidance is sought on:

- **PPP possibility for ATMS:** yes, and this is a preferred option. However, the PPP model needs to de-risk revenue collection risks. A performance-based availability contract model would likely work. If initial investment is heavy, this can be reduced by some upfront payment from government;
- **Whether buses can be operated on PPP:** surely, but the revenue model must be carefully structured. Farebox + availability cover may be an option;
- **On whether PPP can finance civil works (terminals, shelters):** This is unlikely. If offered, private sector would tend to heavily risk-load this; it is better if these are prepared up-front at government cost and/or through grants;
- **Additional information.** If you haven’t already, MCC should be in touch with JICA, which has been assisting the government with urban transport plans for Colombo. JICA has an approved project for an LRT, please see link <https://www.clr.lk/>. Any urban transport scheme must take this into account for feeder and last-step connectivity. ADB is working on the rail system starting in Colombo and has a pipeline of projects starting from 2019. While the first of these focuses on suburban rail efficiency, later projects will focus on inter-city connectivity.



Proposed LRT in Colombo

Craig Steffenson, Asian Development Bank (retired)

Colleagues — reference your request for comments on Sri Lanka background documents for Monday's meeting of the MCC Advisory Council, there may be some useful observations and lessons learned from the linked paper on the Asian Development Bank's support for Sri Lanka's transport. The report is a bit dated but the conclusions, lessons and recommendations outlined in Chapter 4 and in particular, Chapter 5 are relevant to Monday's discussion. For review and consideration. Regards — Craig

David Spira, Deloitte Consulting

Set 1: MCC seeks the Advisory Council's feedback to inform the development of the ATMS Activity, with the specific questions below.

- Given that this project will introduce new technology and systems, how can MCC best leverage the expertise of the private sector in designing, building, operating, and maintaining this critical system?

RESPONSE: Consistent with PPPs that seek to maximize the deployment of new technology and solutions, MCC should be careful to develop output specifications for the system (design, build, operate, maintain) and not specify required inputs. Such an approach

will allow the private sector to be most innovative in the selection of technology and in all facets of its deployment/implementation.

- It is envisioned that the ATMS would be best implemented using a Design-Build-Operate-Maintain (DBOM) project delivery system with a training component to ultimately allow transfer of the operations to the relevant agency. What is the risk appetite of the private sector to undertake a DBOM contract, especially in a country like Sri Lanka, given the possible challenges of ensuring operations and maintenance (O&M) funding from the Government?

RESPONSE: This depends on the private sector entities that are qualified to implement such a project and their experience operating in similar markets. Noteworthy that the design of the DBOM contract and its risk mitigation structures may materially impact private sector interest in the project.

- Knowing that there will be on-going O&M costs associated with keeping this system operating optimally, how should the Government, with MCC's support, start planning to cover these costs? ◦ What domestic resource mobilization tools should be used (i.e. additional taxes, levies, fees, etc.)?

RESPONSE: The use of escrow accounts is a common approach to ensure that adequate funds remain available for the provision of such costs. Such accounts can be automatically populated through various means and remain out of reach of competing government spending. The government should consider the use of additional levies on private car users as a means to maintain this system; they are beneficiaries and are likely to have greater ability to pay as a subgroup than other parts of society.

- Is there private finance that could be tapped into?
- Are there innovative ways the Government could raise these funds that we may not have considered?

RESPONSE: Sponsorship/advertisement of various type can be considered.

- The sustainability of this system will be key to its success – both the behavior change associated with using the new system and the funding and human resources needed to maintain it. What role should the private sector play in this process? How should the Government balance the private versus public aspects of the system to ensure optimal performance? How should the Government handle the data that is generated from the system?
- What U.S. and international firms are you aware of that would be interested in procurements related to this project (system technology, infrastructure design, construction, and O&M)?
- Which experts in ATMS do you think we should seek to better understand these dynamic systems?
- Given that the perceived benefits of ATMS may not be as evident as brand new infrastructure, what role can the private contractor play in educating the traveling public on the subtle but measurable benefits that the ATMS provides?

RESPONSE: A well-orchestrated and well-implemented communications program, implemented by the private contractor, should be able to effectively communicate the measurable benefits of ATMS.

MCC seeks the Advisory Council's feedback to inform the development of the **BTSM Activity**, with the specific questions below.

- Behavior change will be at the crux of success in this activity. How should the activity be designed to facilitate lasting behavior change from all stakeholders – public and private bus owners, operators, and drivers; passengers; and regulatory agencies?
- Given the age and condition of the buses in Sri Lanka, what approaches should be explored when fully designing the BTSM Grant Facility, which would provide funding for bus fleets and improvements to bus terminals, bus stops and shelters, bus parking maintenance depots, bus priority lanes, and bus priority signals? Is there a role for private sector financing in this facility? Are there public private partnerships that should be explored to improve bus terminals, stops, shelters and depots where a revenue stream could be generated?

RESPONSE: Consideration should be provided for green or electric buses that are highly cost competitive and may represent a significantly more attractive rider experience, thus contributing to higher ridership figures.

- How can MCC best promote the BTSM Grant Facility to ensure a robust pipeline of viable proposals, and structure the facility to attract substantial interest and investment in the sector?
- Passenger safety must be a hallmark of an improved bus system. What experts should be consulted for additional thoughts on this critical element of the program? Are you aware of safety and anti-harassment programs that have been successful or could provide lessons learned for the Sri Lanka Compact?
- There are potential revenues that can be generated from advertisement on buses and at bus stops. What would be an approach to exploit such revenue potential? Are there examples that the BTSM Activity should consider from the U.S. and other major international cities?
- What U.S. and international firms are you aware of that would be interested in procurements related to this project (i.e. CCTV, touch card systems for buses, GPS technology, bus re-fleeting, infrastructure design, construction, etc.)?
- Which experts in bus sector modernization do you think we should be seeking out to better understand best practices in this space?

MCC seeks the Advisory Council's feedback to inform the development of the **CCRN Activity**, with the specific questions below.

- What advanced technology can be used to ensure these road improvement investments are high-quality and sustainable?
- It is envisioned that the works contractor will enter into a performance based maintenance contract as part of its construction contract. What risks (if any) do you see in structuring such a contract with the works contractor?
 RESPONSE: The ability and track record of the entity tasked to oversee the provision of adequate maintenance and contractual provisions to support enforcement and reach mutually acceptable decisions in the event of dispute or changes of circumstances.
- Given that certain segments of the CRRN are heavily traveled, consideration is being given to providing incentives to the contractor(s) to reach early completion. What types of incentives can we incorporate in the works contract to achieve early completion milestones?
 RESPONSE: Additional payments and/or the reduction of other fees required to be paid.
- What U.S. and international firms are you aware of that would be interested in procurements related to this project (i.e. design, construction, technical assistance regarding road maintenance, etc.)?

MCC seeks the Advisory Council's **overall feedback** on the Sri Lanka Compact:

- What are we missing at this stage in the process that we can address through detailed design work in the coming 12-18 months?
- How can we ensure U.S. firms are aware of the Sri Lanka Compact and are interested in bidding on procurements during the design phase and the compact implementation period? Likewise, how can we ensure the U.S. public and Sri Lankan diaspora residing in the United States and elsewhere are aware of the program?
 RESPONSE: US firms can be reached through targeted promotion leveraging other USG entities with strong links to the US commercial sector, such as the Department of Commerce and USTDA. The Diaspora can be reached through the identification of Diaspora groups and communications platforms and their effective use. Such platforms exist and can be identified with relatively little difficulty.
- What are the partnerships with American universities and cities that we could explore within the context of this activity?
- Are there other partnership opportunities MCC should be considering that has not been mentioned here?
- Who in your networks would have additional, relevant information that may be helpful in optimizing the compact's final design?

- How can we best tell the story of the impacts of these investments to local affected communities and our stakeholders in the United States?

RESPONSE: Through targeted media campaigns that present the facts, the impacts and benefits, targeted to the different stakeholder groups.

Word document “Feedback on Sri Lanka Compact Transport Projects.docx” attached and inserted below.

Development of Bus Transport Service Modernization Activity

As part of the BTSM Activity, a transition from the current farebox compensation model to a performance-based system with payments based on kilometers traveled and schedule adherence is envisioned. This is possible only if the bus sector agencies have the necessary capacity. In this context, the BTSM activity should also include the following component:

- Technical assistance to bus sector agencies in service planning and route rationalization
- Technical assistance in identifying and developing non-farebox sources of revenue including real estate development, advertising in buses

Feedback on development for BTSM Activity

1. Behavior change will be at the crux of success in this activity. How should the activity be designed to facilitate lasting behavior change from all stakeholders – public and private bus owners, operators, and drivers; passengers; and regulatory agencies?
 - a. A culture of severe consequences for wrongdoings and appreciation for excellence has to be inculcated at each level of the eco-system in order to bring behavioral change
 - b. Thus, the bus transport eco-system should include performance standards which keep customer satisfaction at its core
 - c. A comprehensive diagnosis of the institutions and operating practices will lead to identification of problem areas for which customized solutions can be prepared
2. Given the age and condition of the buses in Sri Lanka, what approaches should be explored when fully designing the BTSM Grant Facility, which would provide funding for bus fleets and improvements to bus terminals, bus stops and shelters, bus parking maintenance depots, bus priority lanes, and bus priority signals? Is there a role for private sector financing in this facility? Are there public private partnerships that should be explored to improve bus terminals, stops, shelters and depots where a revenue stream could be generated?
 - a. The Grant Facility should be constituted such that it is able to track all aspects of the transport eco-system in Sri Lanka and is able to connect the dots i.e. link opportunities, resources, funding and technology in an effective and outcome oriented manner
 - b. The Facility should have access to big data generated from the transport sector which can be effectively analyzed to arrive at lucrative service offerings for the private players
 - c. There are PPP models which can be explored to improve/develop bus terminals, stops, shelters and depots. Examples of such successes include Bus Terminals in Ahmedabad, Vadodara in India, Bus Terminal and Municipal Market of Danli, Honduras, Coordinated

Street Furniture Program Agreement between the City of Chicago (City) and JCDecaux Chicago, LLC.

3. How can MCC best promote the BTSM Grant Facility to ensure a robust pipeline of viable proposals, and structure the facility to attract substantial interest and investment in the sector?
 - a. A crucial segment of the Grant Facility should be a research wing which constantly studies the transport scenario of the city and surrounding regions, carries out regular traffic surveys, stakeholder consultation, public outreach programs and practical research into current trends and technologies. This will ensure that opportunities will be detected on a regular basis and there would be substantial qualitative and quantitative data to warrant investment in the said projects
 - b. This will create confidence among both government and private players which will translate into investment of resources and finance
4. Passenger safety must be a hallmark of an improved bus system. What experts should be consulted for additional thoughts on this critical element of the program? Are you aware of safety and anti-harassment programs that have been successful or could provide lessons learned for the Sri Lanka Compact?
 - a. Japan's road safety initiatives have been widely acknowledged as highly effective and their track record in bringing down traffic fatalities and accidents is impressive
 - b. Being a densely populated island country, Sri Lanka has many factors similar to Japan and thus, a comprehensive study of Japan's initiatives would be productive
5. There are potential revenues that can be generated from advertisement on buses and at bus stops. What would be an approach to exploit such revenue potential? Are there examples that the BTSM Activity should consider from the U.S. and other major international cities?
 - a. Please refer to point 2c.
 - b. JCDecaux develops and manages bus stops, street furniture and multiple public utilities in around 400 cities across the globe in lieu of advertisement rights; similar models can be explored in Sri Lanka
 - c. Past user data in all forms should be studied and analyzed from various perspectives in order to arrive at ideal combinations of advertisements for the target audience (for e.g. a bus stop primarily serving a university should put up advertisements keeping in mind its young audience)
6. What U.S. and international firms are you aware of that would be interested in procurements related to this project (i.e. CCTV, touch card systems for buses, GPS technology, bus re-fleeting, infrastructure design, construction, etc.)?
 - a. CCTV – Bosch security systems, Dahua technologies, Axis communications, Johnson controls
 - b. GPS tech – AirIQ, Fleetmatics group, MiX Telematics, TomTom, Trimble
 - c. Smart Card – Advantech, American Express, Atos SE, Conduent, CPI Card, Frequentis
7. Which experts in bus sector modernization do you think we should be seeking out to better understand best practices in this space?
 - a. There are multiple firms available to support MCC in identifying best practices across the bus sector

Development of Central Ring Road Network Activity

8. What advanced technology can be used to ensure these road improvement investments are high-quality and sustainable?

Road improvement investments should include technologies which are mature in the leading markets but are not utilized much in a developing country such as Sri Lanka. These technologies include but not limited to:

- a. Advanced Technologies in Construction
 - i. Asphalt Pavement Recycling
 - ii. Composite Pavements
 - iii. Warm-Mix Asphalt
 - iv. Micro-surfacing on roads
 - v. Precast Technologies
- b. Advanced Technologies in Planning, Design
 - i. Multimodal Transport System and Alternative Analysis
 - ii. Advanced Geotechnical Investigation Techniques
 - iii. Building Information Modelling
- c. Innovative Implementation Strategies
 - i. Public Sector Comparator and Value for Money
 - ii. Development of Service Level Benchmarks
 - iii. Life Cycle Cost Approach

9. It is envisioned that the works contractor will enter into a performance based maintenance contract as part of its construction contract. What risks (if any) do you see in structuring such a contract with the works contractor?

- a. Private operators may need training and capacity building to bid for and implement output-based contracts
- b. Clear baseline data is needed to establish and monitor performance indicators and standards
- c. Successful output-based contracts require sufficient dedicated fiscal resources and realistic performance expectations

10. Given that certain segments of the CRRN are heavily traveled, consideration is being given to providing incentives to the contractor(s) to reach early completion. What types of incentives can we incorporate in the works contract to achieve early completion milestones?

The incentives may include, but are not limited to, the following:

- a. Schedule and delivery based incentives- A percentage of the total project can be offered as an incentive for early completion. A limit can be set to the incentive amount.
- b. Locked incentive date (LID)- To incentivize early completion, a locked incentive date can be proposed in the contract. This date will be non-adjustable in the event of an extension of delivery date.

11. What U.S. and international firms are you aware of that would be interested in procurements related to this project (i.e. design, construction, technical assistance regarding road maintenance, etc.)?

The firms may include, but are not limited to, the following:

- a. AECOM Technology Corporation
- b. Lea + Elliot Inc.
- c. Egis Group
- d. Louis Berger
- e. Shah Technical Consultants Pvt. Ltd.
- f. Atkins Global
- g. Jacobs Engineering Group, Inc.
- h. Tetra Tech

Development of Advanced Traffic Management Systems Activity

Considering the need to influence behaviour of road users, the ATMS activity should also include the following component:

- Variable Messaging Systems: This system shall allow for delivery of dynamic information to the general public on aspects such as traffic congestions, route maps, etc.
1. Given that this project will introduce new technology and systems, how can MCC best leverage the expertise of the private sector in designing, building, operating, and maintaining this critical system?
There are active players in the segment such as Siemens, Ericsson who have patented technologies which promote multi-modal mobility. Thus, in order to leverage expertise from the private sector, MCC can promote an RfI (Request for Information) process and competitive dialogue to develop an RfP (Request for Proposal) which captures the innovation in the sector.
 2. It is envisioned that the ATMS would be best implemented using a Design-Build-Operate-Maintain (DBOM) project delivery system with a training component to ultimately allow transfer of the operations to the relevant agency. What is the risk appetite of the private sector to undertake a DBOM contract, especially in a country like Sri Lanka, given the possible challenges of ensuring operations and maintenance (O&M) funding from the Government?

Neighboring country India has implemented multiple ATMS projects under a similar framework of DBOM as part of the Smart Cities Mission. These projects have seen active participation from the private sector. Thus, depending on the project size, we should expect participation from players active in the Indian sub-continent who can leverage these experiences.

3. Knowing that there will be on-going O&M costs associated with keeping this system operating optimally, how should the Government, with MCC's support, start planning to cover these costs? What domestic resource mobilization tools should be used (i.e. additional taxes, levies, fees, etc.)? Is there private finance that could be tapped into? Are there innovative ways the Government could raise these funds that we may not have considered?

Data generated by multiple modes of transport through ATMS can be captured on an integrated single platform. This data can be monetized by providing data access to industry players in the

hospitality, entertainment, advertisement domain.

4. The sustainability of this system will be key to its success – both the behavior change associated with using the new system and the funding and human resources needed to maintain it. What role should the private sector play in this process? How should the Government balance the private versus public aspects of the system to ensure optimal performance? How should the Government handle the data that is generated from the system?

The funds generated through data monetization will be used for Operational and running costs of the system.

5. What U.S. and international firms are you aware of that would be interested in procurements related to this project (system technology, infrastructure design, construction, and O&M)?

- Siemens
- Ericsson
- Cubic Transportation System
- Tyco Traffic & Transportation
- Johnson Controls

Which experts in ATMS do you think we should seek to better understand these dynamic systems?

Given that the perceived benefits of ATMS may not be as evident as brand new infrastructure, what role can the private contractor play in educating the traveling public on the subtle but measurable benefits that the ATMS provides?

The public can be educated through

- Passenger Information Systems
- Signage
- Bus stops
- Mobility related apps
- Advertising Hoardings

Naabia Ofosu-Amaah, The Nature Conservancy

- What advanced technology can be used to ensure these road improvement investments are high-quality and sustainable?
 - Through the Latin America Conservation Council, The Nature Conservancy (TNC) and other partners (including the Inter-American Development Bank) recently produced “A Guide to Good Practices for Environmentally Friendly Roads”, which is attached to this email and can be found here: <https://tnc.box.com/s/wbv6neb6kj36ip2tp12a8lveumf3pf8x>. The purpose of the guide is to “present an approach for incorporating environmental issues into road conception and execution to promote a new era of more environmentally friendly

and subsequently sustainable road projects. The Guide looks into the issues of bridging the gap between concepts and practical implementation. It emphasizes the mainstreaming of environmental aspects throughout the project cycle from planning and design to construction, operation, and maintenance (and decommissioning) and integration of the Mitigation Hierarchy.”

- This guide includes a chapter on “Innovative Technologies for Roads”, including information on road construction equipment, road products and construction materials, and tools for impact prediction that are likely to be useful for this compact. The benefits of the new technologies and products included in the guide include “lower emissions and pollution, use of less energy, and minimization of the amount of waste generated.”
- What are we missing at this stage in the process that we can address through detailed design work in the coming 12-18 months?
 - As outlined in TNC’s Road Guide, new and improved roads in “developing countries [are] in areas that harbor some of the planet’s most irreplaceable refuges for biodiversity. Roads boost economies, but they can also damage and destroy natural ecosystems that provide vital services for life on Earth.” Roads are also key drivers of land use change and deforestation, threatening biodiversity. In line with MCC’s Environmental Guidelines, MCC should ensure that the International Finance Corporation’s Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources is applied in the design of this compact as part of MCC’s approach to risk management.
 - In addition, Sri Lanka’s National Biodiversity Plan, developed by the Biodiversity Secretariat of the Ministry of Mahaweli Development and Environment, should also be consulted (found here: <https://www.cbd.int/doc/world/lk/lk-nbsap-v2-en.pdf>). This plan highlights that road development has high influence on biodiversity and environment, stating: “although [the Road Development Authority] is mandated to be environmentally friendly, several recent projects have ignored environmental concerns.” As this compact proposes to not only resurface but also widen highways, the consideration of threats to social, economic, and cultural benefits that biodiversity provides (e.g., tourism) should be integrated into the design process.
- Who in your networks would have additional, relevant information that may be helpful in optimizing the compact’s final design?
 - Subash Seth, retired Senior Highway Engineer at the World Bank, was recommended to me as an expert for consultation on this compact (<https://www.linkedin.com/in/subhash-seth-2a394533/>).

Mini Roy, Metis Markets

- Given that this project will introduce new technology and systems, how can MCC best leverage the expertise of the private sector in designing, building, operating, and maintaining this critical system?

Response: Expert transport panel to be used in selecting bidders. This is a common strategy in addition to which, there has been a lot of discussion in multilaterals (WB/ADB) etc. regarding possible solutions. Have these been incorporated in the discussions with the

government? Strongly recommend inclusion of regional logistics groups – e.g. Singapore, Malaysia, Japan.

- It is envisioned that the ATMS would be best implemented using a Design-Build-Operate-Maintain (DBOM) project delivery system with a training component to ultimately allow transfer of the operations to the relevant agency. What is the risk appetite of the private sector to undertake a DBOM contract, especially in a country like Sri Lanka, given the possible challenges of ensuring operations and maintenance (O&M) funding from the Government?

Response: Would like to understand the rationale behind DBOM vs separating the O&M contract. How are the fees in the system currently used and applied?

- Knowing that there will be on-going O&M costs associated with keeping this system operating optimally, how should the Government, with MCC's support, start planning to cover these costs?
 - What domestic resource mobilization tools should be used (i.e. additional taxes, levies, fees, etc.)?
 - Is there private finance that could be tapped into?
 - Are there innovative ways the Government could raise these funds that we may not have considered?

Response: Again, not clear why the ongoing O&M is attached to the design/build contract since it should be in local currency and ideally operated locally by locally trained staff. If the government signs the O&M can this not be budgeted or is there appropriation risk? How does the govt provide contingent support? i.e. if a levy/tax is charged but revenue shortfalls occur, can the govt guarantee on a multiyear basis?

- The sustainability of this system will be key to its success – both the behavior change associated with using the new system and the funding and human resources needed to maintain it. What role should the private sector play in this process? How should the Government balance the private versus public aspects of the system to ensure optimal performance? How should the Government handle the data that is generated from the system?

Response: What is the current state of PPP legislation in Sri Lanka – is this bankable? It seems likely, given the political climate, that a government managed system will be subject to considerable policy/personnel changes. It seems better, therefore, to have a local private party manage the facility under a revenue agreement with the government. This increases transparency. Will the government allocate part of its MMCC/multilateral financing to this project? If so, a small allocation to contingent support may be sufficient to attract private interest.

- What U.S. and international firms are you aware of that would be interested in procurements related to this project (system technology, infrastructure design, construction, and O&M)?

Response: Suggest including local/regional players in Asia & SE Asia in addition.

- Which experts in ATMS do you think we should seek to better understand these dynamic systems?

Response: Suggest including local/regional players in Asia & SE Asia in addition.

- Given that the perceived benefits of ATMS may not be as evident as brand new infrastructure, what role can the private contractor play in educating the traveling public on the subtle but measurable benefits that the ATMS provides.

Response: What social feedback was conducted as part of the feasibility study? Assuming that buy-in will be required and that there will be forums set up for discussion and local feedback. O&M or government to hire PR firm for survey/polls and social media.

MCC seeks the Advisory Council's feedback to inform the development of the BTSM Activity, with the specific questions below.

- Behavior change will be at the crux of success in this activity. How should the activity be designed to facilitate lasting behavior change from all stakeholders – public and private bus owners, operators, and drivers; passengers; and regulatory agencies?
- Given the age and condition of the buses in Sri Lanka, what approaches should be explored when fully designing the BTSM Grant Facility, which would provide funding for bus fleets and improvements to bus terminals, bus stops and shelters, bus parking maintenance depots, bus priority lanes, and bus priority signals? Is there a role for private sector financing in this facility? Are there public private partnerships that should be explored to improve bus terminals, stops, shelters and depots where a revenue stream could be generated?

Response: This question should possibly be divided into 2 (1) acquisition cost for the buses and related spare parts/repair infrastructure (ECA eligible) and (2) financing of transportation infrastructure – again, these can be operated under contracts with the govt. Will MCC support import finance?

- How can MCC best promote the BTSM Grant Facility to ensure a robust pipeline of viable proposals, and structure the facility to attract substantial interest and investment in the sector?
Response: There are several databases and consultants using them to bid on agency and multilateral contracts. Department of Commerce/TDA?
- Passenger safety must be a hallmark of an improved bus system. What experts should be consulted for additional thoughts on this critical element of the program? Are you aware of safety and anti-harassment programs that have been successful or could provide lessons learned for the Sri Lanka Compact?
- There are potential revenues that can be generated from advertisement on buses and at bus stops. What would be an approach to exploit such revenue potential? Are there examples that the BTSM Activity should consider from the U.S. and other major international cities?
- What U.S. and international firms are you aware of that would be interested in procurements related to this project (i.e. CCTV, touch card systems for buses, GPS technology, bus re-fleetings, infrastructure design, construction, etc.)?

- Which experts in bus sector modernization do you think we should be seeking out to better understand best practices in this space?

MCC seeks the Advisory Council's feedback to inform the development of the CCRN Activity, with the specific questions below.

- What advanced technology can be used to ensure these road improvement investments are high-quality and sustainable?
- It is envisioned that the works contractor will enter into a performance based maintenance contract as part of its construction contract. What risks (if any) do you see in structuring such a contract with the works contractor?

Response: These have to be very well designed and transparent since they tend to get litigated and with delays, have become very politicized in many countries

- Given that certain segments of the CRRN are heavily traveled, consideration is being given to providing incentives to the contractor(s) to reach early completion. What types of incentives can we incorporate in the works contract to achieve early completion milestones?

Response: Incentive payments within EPCs are common – good design of completion tests essential

- What U.S. and international firms are you aware of that would be interested in procurements related to this project (i.e. design, construction, technical assistance regarding road maintenance, etc.)?

Response: MCC seeks the Advisory Council's overall feedback on the Sri Lanka Compact:

- What are we missing at this stage in the process that we can address through detailed design work in the coming 12-18 months?

Response: It would be good to understand the relationship between Colombo's city administration and that of the central government. Does the city have its own revenue raising ability – taxes etc. and can it raise debt or does this have to be done at central level? The city government was well established and operational post-independence – has this changed? Sub sovereign financing is more difficult but increasingly feasible Re CRRN: would be interesting to know how this integrates with national logistics to ports/airports. Sri Lanka has often talked about being the Singapore of South Asia. Does this fit into the national plan and if so, how much of the investment does the MCC grant cover?

- How can we ensure U.S. firms are aware of the Sri Lanka Compact and are interested in bidding on procurements during the design phase and the compact implementation period? Likewise, how can we ensure the U.S. public and Sri Lankan diaspora residing in the United States and elsewhere are aware of the program?

Response: Understand that there is a US-Sri Lanka business council. (Are diaspora bonds

being considered?)

- What are the partnerships with American universities and cities that we could explore within the context of this activity?
- Are there other partnership opportunities MCC should be considering that has not been mentioned here?
Revenue collection and stability is key – MCC could consider working with the local Telcos/credit card companies on payment systems and perhaps creating a multiplatform system that allows for 2-way information, greater POS etc.
- Who in your networks would have additional, relevant information that may be helpful in optimizing the compact's final design? Local banking teams for Citi & HSBC for investment banking/issuance. How can we best tell the story of the impacts of these investments to local affected communities and our stakeholders in the United States?

LKA Advisory Council Briefing Memorandum

MCC Advisory Council Briefing Memorandum: Sri Lanka Compact

MCC seeks the Advisory Council's advice on the transport activities of the proposed Sri Lanka Compact – an Advanced Traffic Management System for the Colombo Metropolitan Region (CMR), upgrades to a ring road in central Sri Lanka, and bus sector reform that seeks to improve this public transit mode, ensure a positive passenger experience, and lead to more efficient transportation of goods and people.

Project Elements for Discussion

MCC's proposed compact with Sri Lanka is in the final stages of development and will be submitted to MCC's Board of Directors for consideration in the near future. The Sri Lanka country team seeks input and advice from the Council on three project elements that will be further designed in the time between compact signature (estimated: December 2018) and compact entry into force (estimated: late 2019/early 2020).

These activities are:

- **An Advanced Traffic Management System Activity**, to optimize the utilization of existing urban roadway network in moving people and goods and improve road safety along 205 km of the most heavily congested roads in the CMR, through the introduction of real-time based advance traffic management system and civil works improvements to approximately 130 intersections and 50 pedestrian crossings;
- **A Bus Transport Service Modernization Activity**, to arrest the steady decline in the use of bus transport by improving the reliability, comfort, service quality, and safety of the bus system in the

CMR; and

- **A Central Ring Road Network Activity**, to resurface and widen approximately 130 km of roads connecting the economically lagging central region of the country with markets and ports and improve road maintenance capacity.

The Compact: An Overview

Sri Lanka was selected to develop a compact by the MCC Board of Directors in December 2016. This decision followed a year of threshold program development and the completion of the constraints-to-growth analysis, which is conducted in all MCC partner countries to identify the binding constraints to economic growth. The constraints-to-growth analysis identified the following three binding constraints to economic growth: (1) policy uncertainty, especially regarding revenue collection and tax policy; (2) transport bottlenecks resulting in traffic congestion in the Western Province and the slow movement of people, goods and services between the Western Province and other regions; and (3) the difficulty of the private sector in accessing state-owned land for commercial purposes.

The Government of Sri Lanka (Government) has developed an ambitious agenda to accelerate economic growth and reduce poverty. Its goal is to increase per capita income to \$5,000 per year by 2025, increase Foreign Direct Investment (FDI) to \$5 billion per year from its current \$1 billion, and further reduce poverty, which has decreased from 23 percent in 2003 to 4 percent in 2016.

The Government places at the center of its vision for “a country enriched” an accelerated plan to turn the capital, Colombo, into a hub for regional trade, commerce, and finance in the Indian Ocean. The Government is putting into place policies to expand trade and exports and encourage multinational companies to locate their operations in Colombo and use it as a springboard for business and investment in the rest of the subcontinent, especially India. Exports as a share of gross domestic product (GDP) has declined from 33 percent in 2000 to 13 percent in 2016. FDI as a share of GDP hovers around 1 percent, well below India and the economies of Southeast Asia against which Sri Lanka benchmarks its performance.

For Sri Lanka to leverage its strategic location astride major international sea lanes between East Asia and the Middle East and other advantages, it is critical that Colombo have a well-functioning transport network. The Port of Colombo is already the 30th busiest in the world and the busiest in South Asia. If inadequate transport infrastructure, planning, and management cause traffic congestion in Colombo and its environs to follow the trajectory of cities like Manila and Delhi, with their severe gridlock and air pollution, Sri Lanka stands little chance of attracting foreign investment and realizing its regional ambitions. If it succeeds, however, it would place the country on a sustained high growth trajectory.

In designing the proposed compact, MCC and the Government carefully considered the need for inclusivity given Sri Lanka’s historical context and agreed that the compact must acknowledge Sri Lanka’s unique history of conflict, which includes the protracted civil war between the Government and Tamil separatists in the north and east of the country that ended in 2009. The conflict divided the country along ethnic lines, effects of which are still evident in current patterns of inequality. In light of this reality, MCC

and the Government have developed an inclusive compact that invests in both the Western Province and the CMR in particular, and lagging and post-conflict regions such as the Central, Sabaragamuwa, Uva, and Eastern Provinces, which have relatively large numbers of poor and ethnic minorities.

The proposed compact has two projects – transport and land – each composed of several cohesive activities, which address the identified binding constraints to economic growth and their underlying root causes. Given the limited amount of time to consult with the Advisory Council, MCC is seeking feedback only on the Transport Project at the upcoming meeting. More details about the proposed transport activities and a list of specific questions are included below.

Transport Project

With approximately two million person-trips a day in the CMR alone, and in a country with a total population of 21 million people, traffic congestion is fast approaching a tipping point from which it will be difficult to recover if remedial action is postponed. Traffic congestion in the CMR has resulted in high costs incurred by workers as they access jobs and firms accessing other input and output markets.

The root causes of urban traffic congestion are largely rising population growth, urbanization, the attractiveness of private transport, and sub-optimal public transport. The average motorized trip speed in Colombo is 12 km/hour, while the average bus speed is 7-8 km/hour, punishingly slow for daily commuters and freight shipments alike. Travel time to and from Colombo within a 20 km radius exceeds two hours during peak time, reducing labor force efficiency and causing immense financial losses. One study by the University of Moratuwa estimated that congestion results in \$240 million in direct costs and \$2.4 billion in lost economic opportunities per annum. In addition, poor inter-regional transport infrastructure and services make economic expansion in other regions of the country more difficult, particularly in economically lagging and post conflict areas.

The Transport Project seeks to increase the relative efficiency and capacity of the road network and bus system in the CMR and to reduce the cost of transport in order to facilitate the flow of passengers and goods between the central region of the country and ports and markets. The Transport Project would accomplish this by upgrading the physical roadway network, modernizing the traffic system, improving the performance of the public transportation system, introducing an enabling policy and regulatory environment, providing technical assistance to transport agencies and other relevant stakeholders to ensure long-term sustainability of the transport infrastructure, and undertaking initiatives designed to reduce the harassment of women using the public transportation system. These investments are expected to result in a safer, more comfortable, and reliable public transportation system for the traveling public, and to reduce the transport costs required to move people and goods from lagging regions to markets and ports. The Transport Project is further expected to reduce the number of critical bottlenecks in the CMR roadway network and national road, facilitate the flow of vehicular traffic through the major urban corridors, ensure pedestrian safety, reduce traffic congestion in the CMR, and improve connectivity between regions in the central part of the country. The Transport Project is composed of three activities, detailed below.

The Advanced Traffic Management System (ATMS) Activity seeks to decrease relative travel time by reducing traffic delays and improving road safety in the most heavily congested arterial corridors of the CMR, unclogging the arteries between the organs that represent big ticket infrastructure and last-mile capillaries that get people to their homes, schools, shops, and places of work. Civil works and technology enhancements along the roadways are expected to optimize vehicle throughput and improve road safety along 205 km of the most heavily congested roads in the CMR, through the introduction of coordinated traffic signals and civil works improvements to approximately 132 junctions and the creation of an additional 50 pedestrian crossings in the eight corridors within the CMR emanating from the Colombo Central Business District/port area to the Outer Circular Highway. The combination of civil works with technology enhancements under the ATMS Activity seeks to optimize the efficiency of the existing road network, without which other big ticket projects would, by themselves, fail to reduce congestion.

The ATMS consists of a real-time traffic management system and a traffic management center. The traffic management center will serve as the nerve center overseeing road traffic information, incident management, automated traffic enforcement, and bus prioritization and management. In short, the ATMS Activity provides the critical missing piece in the overall task of improving the urban transport sector. It will improve vehicle throughput between Colombo and the country's burgeoning expressway network and the existing interprovincial highways, and will optimize road safety for pedestrian and non-motorized transportation. The large amounts of data that could potentially be generated by the ATMS Activity, on road use and travel behavior, may also help the Government to optimize transport planning and spending.

Specifically, under ATMS Activity will support the following interventions:

- Civil works involving geometric improvements to traffic junctions and roadway segments;
- Installation of a real-time-based traffic management system that includes: (a) state-of-the-art traffic detection, communications, and data-processing and control system technologies; (b) synchronized and demand-responsive traffic signal and advance controller technologies; (c) an incident management system; (d) an automated traffic enforcement system; (e) a transport administrative support system; and (f) a bus priority management system;
- Establishment of a traffic management center including the control center equipment; communications interface; geographic information system-based automated network map covering the ATMS control area; closed-circuit television ("CCTV") monitors; data acquisition and analysis software computer systems; office furniture; and back-end administrative support systems; and
- Technical assistance and training to (a) ensure that the system will be operated and maintained effectively to deliver optimal performance, and (b) develop necessary protocols to enhance incident reporting and safety.

The Bus Transport Service Modernization (BTSM) Activity seeks to make significant improvements to the speed and quality of the public bus system and to slow down and reverse the trend of declining use of public transport and increasing use of private motor transport. Bus transport's modal share of all motorized trips in the CMR has been declining at the rate of 1-2 percent per year due to poor service. The

BTSM Activity aims to arrest this decline by focusing on key institutional and regulatory reforms and reinforcing these reforms with supporting technology and infrastructure improvements.

Improving public transport is a critical element in the overall effort to reduce traffic congestion. Residents in the CMR must have access to viable public transport options, as well as the incentives to use it – otherwise, more people in the CMR will turn to automobiles and three-wheelers, ultimately negating the gains from the sophisticated ATMS. For this reason, the BTSM Activity will be closely integrated with the ATMS Activity to help reduce traffic congestion and journey times for users of public transport in the CMR.

The BTSM Activity will support the: (i) transition from the current farebox compensation model to a performance-based system with payments based on kilometers traveled and schedule adherence, (ii) use of smart card technology to track and monitor revenue and service, and (iii) establishment of an oversight mechanism to effectively monitor, regulate, plan, and execute essential activities within the bus sector. Sri Lanka has already introduced an innovative reform initiative, known as Sahasara, in the second largest city, Kandy. The BTSM Activity will aim to scale up this initiative, which incentivized private bus operators to adopt practices that improved the safety and reliability of bus service while also increasing profits.

Specifically, under BTSM Activity will support the following interventions:

- Technical assistance and capacity building to assist bus sector agencies and relevant stakeholders, and develop a long-term funding mechanism to finance future Government needs;
- Investments in technology identified in the Bus Sector Reform Plan, such as global positioning systems (GPS), CCTV, monitoring equipment, a bus control center, and communications systems to support tracking and essential data gathering;
- Technical assistance to develop a code of conduct for passengers and public bus system stakeholders as well as training for the Sri Lanka Transport Board (SLTB) and private sector bus crews on safety and the prevention of harassment; and
- A “BTSM Grant Facility” that would focus on identifying opportunities for investments in the bus sector that could include upgrades to bus fleets and improvements to bus terminals, bus stops and shelters, bus parking maintenance depots, bus priority lanes and bus priority signals (in areas that overlap with the ATMS Activity interventions).

The Central Ring Road Network (CRRN) Activity aims to reduce the transport costs of moving people and goods by improving five sections along the road network connecting Central, Sabaragamuwa, Uva, and the Eastern Provinces to the Western Province. The CRRN Activity focuses on improving the highway network in the central region of the country to expedite the interprovincial movement of people and goods. The central region accounts for a substantial share of the country’s export crops, is the most ethnically diverse, and has the largest number of poor people. Thus, improvements to this road network will net several benefits, by connecting the economically lagging central region of the country with markets and ports. The CRRN Activity will upgrade approximately 130 km of roadway to the national Class A road standard, and enhance the capacity and safety of the roadway. It will also rehabilitate the

pavement structure and surface layers of these roads in order to extend their service life. Finally, the CRRN Activity will support the development of a multi-year road maintenance plan and a sustainable financing plan to ensure the continued maintenance of these and other interprovincial roads.

Specifically, under CRRN Activity will support the following interventions:

- Upgrading targeted road sections to bring the road to the national Class A road standard and enhance the capacity and safety of the roadway;
- Rehabilitating the pavement structure and surface layers of these roads;
- Providing technical assistance and training in the application of advanced pavement technologies and construction methods, data collection, modeling and calibration of the Highway Development Management software tool (HDM-4) that will be used to develop a prioritized road maintenance plan, and the application of asset management systems;
- Providing technical assistance to support the development of a multi-year road maintenance plan and a sustainable financing plan for a Road Maintenance Trust Fund to ensure the continued maintenance of these and other interprovincial roads; and
- Supporting a public outreach, education and communication strategy designed to highlight the expected improvements to Sri Lanka's transport system and address harassment in public transport.

Questions for the Advisory Council

MCC seeks the Advisory Council's feedback to inform the development of the ATMS Activity, with the specific questions below.

- Given that this project will introduce new technology and systems, how can MCC best leverage the expertise of the private sector in designing, building, operating, and maintaining this critical system?
- It is envisioned that the ATMS would be best implemented using a Design-Build-Operate-Maintain (DBOM) project delivery system with a training component to ultimately allow transfer of the operations to the relevant agency. What is the risk appetite of the private sector to undertake a DBOM contract, especially in a country like Sri Lanka, given the possible challenges of ensuring operations and maintenance (O&M) funding from the Government?
- Knowing that there will be on-going O&M costs associated with keeping this system operating optimally, how should the Government, with MCC's support, start planning to cover these costs?

What domestic resource mobilization tools should be used (i.e. additional taxes, levies, fees, etc.)?

- Is there private finance that could be tapped into?
- Are there innovative ways the Government could raise these funds that we may not have considered?
- The sustainability of this system will be key to its success – both the behavior change associated with using the new system and the funding and human resources needed to maintain it. What role

should the private sector play in this process? How should the Government balance the private versus public aspects of the system to ensure optimal performance? How should the Government handle the data that is generated from the system?

- What U.S. and international firms are you aware of that would be interested in procurements related to this project (system technology, infrastructure design, construction, and O&M)?
- Which experts in ATMS do you think we should seek to better understand these dynamic systems?
- Given that the perceived benefits of ATMS may not be as evident as brand new infrastructure, what role can the private contractor play in educating the traveling public on the subtle but measurable benefits that the ATMS provides?

MCC seeks the Advisory Council's feedback to inform the development of the BTSM Activity, with the specific questions below.

- Behavior change will be at the crux of success in this activity. How should the activity be designed to facilitate lasting behavior change from all stakeholders – public and private bus owners, operators, and drivers; passengers; and regulatory agencies?
- Given the age and condition of the buses in Sri Lanka, what approaches should be explored when fully designing the BTSM Grant Facility, which would provide funding for bus fleets and improvements to bus terminals, bus stops and shelters, bus parking maintenance depots, bus priority lanes, and bus priority signals? Is there a role for private sector financing in this facility? Are there public private partnerships that should be explored to improve bus terminals, stops, shelters and depots where a revenue stream could be generated?
- How can MCC best promote the BTSM Grant Facility to ensure a robust pipeline of viable proposals, and structure the facility to attract substantial interest and investment in the sector?
- Passenger safety must be a hallmark of an improved bus system. What experts should be consulted for additional thoughts on this critical element of the program? Are you aware of safety and anti-harassment programs that have been successful or could provide lessons learned for the Sri Lanka Compact?
- There are potential revenues that can be generated from advertisement on buses and at bus stops. What would be an approach to exploit such revenue potential? Are there examples that the BTSM Activity should consider from the U.S. and other major international cities?
- What U.S. and international firms are you aware of that would be interested in procurements related to this project (i.e. CCTV, touch card systems for buses, GPS technology, bus re-fleetings, infrastructure design, construction, etc.)?
- Which experts in bus sector modernization do you think we should be seeking out to better understand best practices in this space?

MCC seeks the Advisory Council's feedback to inform the development of the CRRN Activity, with the specific questions below.

- What advanced technology can be used to ensure these road improvement investments are high-quality and sustainable?
- It is envisioned that the works contractor will enter into a performance based maintenance

contract as part of its construction contract. What risks (if any) do you see in structuring such a contract with the works contractor?

- Given that certain segments of the CRRN are heavily traveled, consideration is being given to providing incentives to the contractor(s) to reach early completion. What types of incentives can we incorporate in the works contract to achieve early completion milestones?
- What U.S. and international firms are you aware of that would be interested in procurements related to this project (i.e. design, construction, technical assistance regarding road maintenance, etc.)?

MCC seeks the Advisory Council's **overall feedback** on the Sri Lanka Compact:

- What are we missing at this stage in the process that we can address through detailed design work in the coming 12-18 months?
- How can we ensure U.S. firms are aware of the Sri Lanka Compact and are interested in bidding on procurements during the design phase and the compact implementation period? Likewise, how can we ensure the U.S. public and Sri Lankan diaspora residing in the United States and elsewhere are aware of the program?
- What are the partnerships with American universities and cities that we could explore within the context of this activity?
- Are there other partnership opportunities MCC should be considering that has not been mentioned here?
- Who in your networks would have additional, relevant information that may be helpful in optimizing the compact's final design?
- How can we best tell the story of the impacts of these investments to local affected communities and our stakeholders in the United States?

Read ahead materials: [Sri Lanka Compact Briefing Memo](#) and [Sri Lanka Transport Project Presentation](#)